

Message Text

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ACTION EB-11

INFO OCT-01 NEA-14 ISO-00 SP-03 AID-20 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

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R 050852Z JUL 74

FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 2993

C O N F I D E N T I A L TEL AVIV 3680

E.O.11652: GDS

TAGS: EFIN, OVIP (SIMON) , IS

SUBJECT: ISRAEL'S FOREIGN DEBT

REF: TEL AVIV A-161, JULY 3, 1974

1. REFAIR REVIEWED ISRAEL'S FOREIGN DEBT. SINCE IT WILL NOT BE DISTRIBUTED BEFORE SECRETARY'S SIMON'S DEPARTURE ON MID-EAST TOUR, FOLLOWING SUMMARY MAY BE USEFUL.

2. AT END OF 1973, FOREIGN DEBT TOTALED \$5,093 MILLION, THREE AND ONE-HALF TIMES WHAT IT WAS IMMEDIATELY PRIOR TO JUNE 1967 WAR. THIS WAS \$1,529 PER CAPITA. OVERWHELMING PROPORTION WAS ON FAVORABLE TERMS, LONG-TERM (OVER 92 PERCENT) AND A CONCESSIONAL INTEREST RATE. OVER THREE-FOURTHS REPRESENTED LOANS WHICH ISRAEL CONSIDERS DESIRABLE: ISRAEL BONDS (\$1,747 MILLION), USG LOANS (\$1,454 MILLION), WEST GERMAN DEVELOPMENT LOANS (\$577 MILLION), AND WORLD BANK LOANS (\$98 MILLION). USG FIGURES EXCLUDE OVER \$1 BILLION OBLIGATED BUT NOT YET DRAWN DOWN, INCLUDING \$700 MILLION FROM LAST YEAR'S EMERGENCY SECURITY ASSISTANCE.

3. THREE-FOURTHS OF TOTAL FOREIGN DEBT COMPRISED DIRECT OBLIGATIONS OF STATE OF ISRAEL. WEIGHTED AVERAGE INTEREST RATE ON DIRECT OBLIGATIONS WAS ONLY 4.1 PERCENT, WHILE WEIGHTED AVERAGE ORIGINAL

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TERM WAS 15.8 YEARW--BOTH CALCULATED ON OUTSTANDING DEBT AS OF

MARCH 1973, LATEST COMPREHENSIVE DATE AVAILABLE. DEGREE OF CONCESSIONALITY IN USG LOANS IS OF INTEREST: ON \$1,266 MILLION OUTSTANDING IN MARCH 1973, WEIGHTED AVERAGE INTEREST RATE WAS 4.1 PERCENT AND WEIGHTED AVERAGE ORIGINAL TERM OVER 15 YEARS. USG FIGURES INCLUDE ONLY DEBT PAYABLE IN DOLLARS--LOCAL CURRENCY DEBT (\$147 MILLION EQUIVALENT) IS ON EVEN EASIER TERMS.

4. DEBT SERVICE PAYMENTS ROSE ABSOLUTELY BUT DECLINED RELATIVE TO RESOURCES FROM 1958 TO 1973, IN LATTER YEAR CONSTITUTING 14.8 PERCENT OF EXPORTS PLUS UNILATERAL TRANSFERS, THE LOWEST PERCENTAGE SINCE 1955. OCTOBER 1973 WAS HAS AT LEAST TEMPORARILY INTERRUPTED TREND TOWARD EASING OF RELATIVE BURDEN: NONETHELESS 1974 WILL BE SECOND EASIEST YEAR SINCE 1955. OUTLOOK FOR NEXT FEW YEARS IS FOR SOMEWHAT HEAVIER BURDEN, BUT IT IS UNLIKELY TO GO ABOVE LONG-TERM AVERAGE OF 20-22 PERCENT OF EXPORTS PLUS TRANSFERS. MOREOVER, ISRAELI BALANCE-OF-PAYMENTS DATA OVERSTATE FOREIGN EXCHANGE DRAIN OF SERVICING FOREIGN DEBT. OF \$712 MILLION IN PRINCIPAL AND INTEREST PAID DURING CY 1973, AN ESTIMATED \$125 MILLION WAS ACTUALLY DISBURSED IN NONCONVERTIBLE ISRAEL POUNDS DUE TO EARLY REDEMPTION OF ISRAEL BONDS AND REPAYMENTS ON ISRAEL POUND DEBT OWED TO USG.

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